

Message Text

CONFIDENTIAL

PAGE 01 VIENTI 07105 132028Z

63

ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-03 TRSE-00 XMB-07

OPIC-12 CIEP-03 LAB-06 SIL-01 OMB-01 AGR-20 IO-14

INT-08 DPW-01 DRC-01 /198 W
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R 131100Z SEP 74

FM AMEMBASSY VIENTIANE
TO SECSTATE WASHDC 0794
INFO AMEMBASSY BANGKOK

C O N F I D E N T I A L VIENTIANE 7105

E.O. 11652: GDS

TAGS: ECON, EMIN, LA

SUBJECT: ECONOMIC DEVELOPMENT OF LAOS

1. FOLLOWING A TALK WITH FOREIGN MINISTER PHOUMI VONGVICHIT THIS MORNING ON ISSUES WHICH WOULD BE RAISED AT THE 29TH UNGA, THE CONVERSATION TURNED TO THE ECONOMIC SITUATION IN LAOS AND THE WHOLE QUESTION OF ECONOMIC DEVELOPMENT HERE.

2. I INTRODUCED THE SUBJECT BY MENTIONING TO PHOUMI MY VISIT YESTERDAY TO THE DRILLING SITE NEAR VIENTIANE AT WHICH USAID AND THE DIRECTORATE OF MINES ARE HOPING TO FIND A POTASH DEPOSIT. I SAID THAT I BELIEVED THAT GREAT IMPORTANCE AND URGENCY SHOULD BE ATTACHED TO THE WHOLE FIELD OF EXPLORATION FOR MINERALS IN THIS COUNTRY AS A MEANS OF REDUCING DEPENDENCE ON INTERNATIONAL ASSISTANCE.

3. PHOUMI APPEARED GREATLY INTERESTED IN THIS PROJECT AND PROCEEDED TO TALK FOR NEARLY AN HOUR ON THE
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PAGE 02 VIENTI 07105 132028Z

MANNER IN WHICH HE THOUGHT THE PGNU SHOULD APPROACH

ITS ECONOMIC PROBLEMS. PHOUMI STATED THAT THE ECONOMIC DIFFICULTIES OF LAOS SHOULD BE ATTACKED ON MANY FRONTS. MINING WAS OBVIOUSLY VERY IMPORTANT AND COULD GIVE LAOS A SIGNIFICANT BOOST. THE EXTENT AND QUALITY OF MINERAL DEPOSITS SHOULD BE EXPLORED URGENTLY AND THE DEVELOPMENT OF ROADS SHOULD BE HARMONIZED WITH THE POSSIBILITY OF MINERAL EXPLOITATION.

4. PHOUMI THEN TURNED TO AGRICULTURE AND EXPRESSED HIS CONCERN THAT LAOS IS LAGGING IN AGRICULTURAL PRODUCTION. FURTHERMORE, THE FACT THAT PRODUCE OFTEN PASSES THROUGH THE HANDS OF TWO OR MORE MIDDLEMEN ADDS TO THE COST TO THE CONSUMER. A SENSIBLE PLAN SHOULD BE DRAWN UP BASED ON THE ESTIMATED ANNUAL CONSUMPTION OF VIENTIANE WHICH WOULD ASSURE THE AVAILABILITY OF RICE, VEGETABLES AND MEAT TO THE POPULATION. WHEN I COMMENTED THAT AN IRON CURTAIN COULD NOT BE DROPPED ACROSS THE MEKONG AND THAT THE CONTINUING SALE OF THAI PRODUCE MUST BE ENVISAGED, PHOUMI REPLIED THAT HE DID NOT WISH TO PREVENT THE THAI FROM HAVING ACCESS TO THE LAO MARKET BUT THAT INCREASED LAO PRODUCTION AND AVAILABILITY OF LAO GOODS AT LOWER COSTS WOULD RATIONALIZE THE EXISTING SITUATION. PHOUMI SAID THAT THE VIENTIANE PLAIN WAS FAR FROM DEVELOPED AND THAT THE GOVERNMENT HAD NOT DONE NEARLY ENOUGH IN THE PAST TO INCREASE PRODUCTION. ALTHOUGH HE DID NOT SAY SO IT WAS MY IMPRESSION THAT HE ENVISAGES THE ESTABLISHMENT OF COOPERATIVES WHICH WOULD BENEFIT FROM FOREIGN TECHNICAL ASSISTANCE AND WHICH WOULD HAVE MORE DIRECT ACCESS TO URBAN MARKETS THAN INDIVIDUAL PRODUCERS HAVE TODAY.

5. I MENTIONED THAT ALL SCHEMES FOR THE MECHANIZATION AND MODERNIZATION OF AGRICULTURE WOULD INCREASE DEMANDS ON SCARCE FOREIGN EXCHANGE. PHOUMI REPLIED THAT THE PGNU WAS VERY GRATEFUL TO THE COUNTRIES WHICH CONTRIBUTED TO FEOF AND THAT IT WAS NATURAL THAT THESE COUNTRIES SHOULD NOT HAVE INTERVENED WITH REGARD TO THE COMMODITIES IMPORTED. IN HIS

CONFIDENTIAL

PAGE 03 VIENTI 07105 132028Z

VIEW, HOWEVER, TOO MANY LUXURY ITEMS HAD BEEN BROUGHT IN AND A FAR GREATER MEASURE OF CONTROL SHOULD BE EXERCISED OVER THE USE OF FOREIGN EXCHANGE. I THEN EXPLAINED THAT CONSIDERATION OF THE FOREIGN EXCHANGE PROBLEM SHOULD NOT BE LIMITED TO FEOF. THE FOREIGN EXCHANGE RESOURCES EXPENDED FOR THE BENEFIT OF LAOS WERE AN AMALGAM OF LAO EARNINGS, FEOF CONTRIBUTIONS, USAID IMPORTS, AND COMMODITIES

BROUGHT IN UNDER MAP. PHOUMI SAID THAT HE REALIZED THAT THE FEOF FIGURES DID NOT REVEAL THE MAGNITUDE OF THE PROBLEM AND THEN RETURNED TO THE THEME THAT IT WAS OF THE GREATEST IMPORTANCE AND URGENCY FOR THE PGNU TO COMMENCE THE CAREFUL AND SYSTEMATIC EXPLOITATION OF LAO NATURAL RESOURCES. MINING AND FORESTRY WERE THE TWO FIELDS IN WHICH INTENSIFIED ACTIVITY WAS MANDATORY BUT RESULTS, PARTICULARLY IN THE FIELD OF MINING, WOULD BE SLOW GIVEN THE COMPLEXITIES OF ANY MINING PROJECT.

6. I REPORT THE FOREGOING IN SOME DETAIL AS I BELIEVE IT DEMONSTRATES THE SIMPLE COMMON SENSE WITH WHICH PHOUMI, AND PRESUMABLY HIS ASSOCIATES ARE LOOKING AT THE PROBLEMS LAOS CONFRONTS. IT WAS MY STRONG IMPRESSION THAT PHOUMI FINDS HIMSELF FACING A RANGE OF PROBLEMS WHICH HE HOPES TO CONFRONT PRAGMATICALLY BUT THAT HE IS DISCOURAGED BY THE INEFFECTIVENESS OF LAO BUREAUCRACY AND IS BEGINNING TO APPRECIATE THE DIFFICULTIES OF MOVING FORWARD IN A RATIONAL MANNER. AT ONE POINT HE NOTED THAT THE KING HIMSELF WORKS WITH HIS HANDS ON HIS FARM BUT THAT THE BULK OF THE LAO BEING EDUCATED ABROAD ARE MORE INTERESTED IN COMPETING FOR POSITION IN THE BUREAUCRACY THAN THEY ARE IN CONTRIBUTING MEANINGFULLY TO ECONOMIC DEVELOPMENT. AT THE CLOSE OF OUR CONVERSATION, I REMINDED PHOUMI OF THE ARRANGEMENTS I HAVE BEEN TRYING TO MAKE FOR A CANDID DISCUSSION OF AID ACTIVITIES HERE AND HE AGREED THAT WE SHOULD MEET AND LOOK INTO SOME OF THESE PROBLEMS IN DEPTH AFTER HIS RETURN FROM NEW YORK. WHITEHOUSE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, EXPLORATION, DIPLOMATIC DISCUSSIONS, POTASSIUM, MINERALS, FOREIGN EXCHANGE
Control Number: n/a
Copy: SINGLE
Draft Date: 13 SEP 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: kelleyw0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974VIENTI07105
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740256-1210
From: VIENTIANE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740945/aaaabmjf.tel
Line Count: 146
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: kelleyw0
Review Comment: n/a
Review Content Flags:
Review Date: 17 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 JUL 2002 by kelleyw0>; APPROVED <19 MAR 2003 by kelleyw0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENT OF LAOS
TAGS: ECON, EMIN, LA, (PHOUMI VONGVICHIT), (WHITEHOUSE, CHARLES S)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005